1. A steel company sells some steel to a bicycle company for $150. The bicycle company uses the steel to produce a bicycle, which it sells for $250. Taken together, these two transactions contribute
   a. $150 to GDP.
   b. $250 to GDP.
   c. between $250 and $400 to GDP, depending on the profit earned by the bicycle company when it sold the bicycle.
   d. $400 to GDP.

   ANSWER: b

2. One bag of flour is sold for $1.00 to a bakery, which uses the flour to bake bread that is sold for $3.00 to consumers. A second bag of flour is sold for $1 to a grocery store who sells it to a consumer for $2.00. Taking these four transactions into account, what is the effect on GDP?
   a. GDP increases by $3.00.
   b. GDP increases by $5.00.
   c. GDP increases by $6.00.
   d. GDP increases by $7.00.

   ANSWER: b

3. Wholesome Wheat Bakery buys $10.00 worth of flour from Mikes’ Mill and uses the flour to make bread. Wholesome Wheat sells the bread to the public for $22.00. Taking these two transactions into account, what is the effect on GDP?
   a. GDP increases by $10.00
   b. GDP increases by $12.00
   c. GDP increases by $22.00
   d. GDP increases by $32.00

   ANSWER: c

4. A dairy buys $50,000 worth of milk and spend $5,000 on cartons and utilities. It sells the cartons of milk to a grocery store for $60,000 that then sells all of the cartons to consumers for $65,000. How much do these actions add to GDP?
   a. $55,000
   b. $65,000
   c. $120,000
   d. None of the above are correct.

   ANSWER: b

5. Suppose there are only two firms in an economy: Cowhide, Inc. produces leather and sells it to Couches, Inc., which produces and sells leather furniture. With each $1,000 worth of leather that it buys from Cowhide, Inc., Couches, Inc. produces a couch and sells it for $2,600. Neither firm had any inventory at the beginning of 2015. During that year, Cowhide produced enough leather for 25 couches. Couches, Inc. bought 80% of that leather for $20,000 and promised to buy the remaining
20% for $5,000 in 2016. Couches, Inc. produced 20 couches during 2015 and sold each one during that year for $2,600. What was the economy's GDP for 2015?
   a. $25,000
   b. $52,000
   c. $57,000
   d. $65,000

ANSWER: c

6. Which of the following transactions is not included in GDP?
   a. oranges sold to households by a grocer.
   b. orange juice sold by a restaurant to its diners.
   c. oranges sold by a farmer to a grocery store.
   d. All of the above are included in GDP.

ANSWER: c

7. Which of the following transactions would be included in GDP for 2015?
   a. In February 2015, Amanda sells a 2009 Hyundai to Isabella.
   b. In March 2015, Amanda buys a ticket to visit a zoo in Florida. She visits the zoo in February 2016.
   c. In November 2015, Isabella eats onions that she harvested from her backyard garden in October 2015.
   d. All of the above are correct.

ANSWER: b

8. Tom and Lilly rented a house for $12,000 last year. At the start of the year they bought the house they had been renting directly from the owner for $250,000. They believe they could rent it for $12,000 this year, but stay in the house. How much does Tom and Lilly’s decision to buy the house change GDP?
   a. it reduces GDP by $12,000
   b. it does not change GDP
   c. it raises GDP by $238,000
   d. it raises GDP by $250,000

ANSWER: b

9. Tyler and Camille both live in Oklahoma. A new-car dealer in Oklahoma bought a new car from the manufacturer for $18,000 and sold it to Tyler for $22,000. Later that year, Tyler sold the car to Camille for $17,000. By how much did these transactions contribute to U.S. GDP for the year?
   a. $18,000
   b. $22,000
   c. $39,000
   d. $57,000

ANSWER: b

10. An American company operates a fast food restaurant in Paris, France. Which of the following statements is accurate?
   a. The value of the goods and services produced by the restaurant is included in both French GDP and U.S. GDP.
b. The value added by American workers and equipment in France is included in U.S. GDP and the value added by French workers and equipment is added to French GDP.

c. The value of the goods and services produced by the restaurant is included in French GDP, but not in U.S. GDP.

d. The value of the goods and services produced by the restaurant is included in U.S. GDP, but not in French GDP.

ANSWER: c

11. GDP and GNP are related as follows:

a. GNP = GDP + Value of exported goods - Value of imported goods.

b. GNP = GDP - Value of exported goods + Value of imported goods.


ANSWER: d

12. GDP includes the value of all

a. final goods and services produced within a country using primarily market prices to measure the value of goods and services.

b. final goods and services produced within a country using primarily a survey of consumers to measure the value of goods and services.

c. goods and services produced within a country using primarily market prices to measure the value of goods and services.

d. goods and services produced within a country using primarily a survey of consumers to measure the value of goods and services.

ANSWER: a

13. Micah buys a used car for $10,000 and spends $200 on a new radio that is made in the U.S. The end result of these two transactions is


b. U.S. consumption purchases increase by $200 and U.S. GDP increases by $10,000.

c. U.S. consumption purchases increase by $10,000 and U.S. GDP increases by $10,200.


ANSWER: a

14. For the purpose of calculating GDP, investment is spending on

a. stocks, bonds, and other financial assets.

b. real estate and financial assets such as stocks and bonds.

c. capital equipment, inventories, and structures, including household purchases of new housing.

d. capital equipment, inventories, and structures, excluding household purchases of new housing.

ANSWER: c

15. Which of the following is included in the investment component of GDP?

a. spending on new residential construction and spending on stocks and bonds

b. spending on new residential construction but not spending on stocks and bonds

ANSWER: c
17. Which of the following is not included in the investment component of GDP?
   a. The purchase of 100 shares of stock.
   b. The purchase of a $1000 bond.
   c. A firm’s purchase of a used van to use for deliveries.
   d. None of the above are included in the investment component of GDP.

   ANSWER: d

16. Which of the following is not included in the investment component of GDP?
   a. The purchase of 100 shares of stock.
   b. The purchase of a $1000 bond.
   c. A firm’s purchase of a used van to use for deliveries.
   d. None of the above are included in the investment component of GDP.

   ANSWER: b

17. Consider two items that might be included in GDP: (1) the estimated rental value of owner-occupied housing and (2) purchases of newly-constructed homes. How are these two items accounted for when GDP is calculated?
   a. Both item (1) and item (2) are included in the consumption component of GDP.
   b. Item (1) is included in the consumption component of GDP, while item (2) is included in the investment component of GDP.
   c. Item (1) is included in the investment component of GDP, while item (2) is included in the consumption component of GDP.
   d. Only item (2) is included in GDP, and it is included in the investment component.

   ANSWER: b

18. A Minnesota farmer buys a new tractor made in Iowa by a German company. As a result,
   a. U.S. investment and GDP increase, but German GDP is unaffected.
   b. U.S. investment and German GDP increase, but U.S. GDP is unaffected.
   c. U.S. investment, U.S. GDP, and German GDP are unaffected because tractors are intermediate goods.
   d. U.S. investment, U.S. GDP, and German GDP all increase.

   ANSWER: a

19. A manufacturer produces 1 million televisions in the first quarter of the year. It sells 900,000 of them before the end of the first quarter, and holds the others in its warehouse. How will the 100,000 unsold televisions be treated in the GDP statistics?
   a. Since the televisions eventually will be bought by consumers, they will be included as consumption in the first quarter.
   b. Since the televisions were not purchased in the first quarter, they will be counted as an increase in second-quarter GDP.
   c. The televisions will be counted as a change in inventory in the first quarter and so will be included in first-quarter GDP.
   d. The televisions will be counted as a change in inventory in the first quarter, and when sold in the second quarter will raise second-quarter GDP.

   ANSWER: c

20. A good is produced by a firm in 2009, added to the firm’s inventory in 2010, and sold to a household in 2010. As a result, on net,
   a. 2009 GDP increased and 2010 GDP decreased.
   b. 2009 GDP decreased and 2010 GDP increased.
c. 2009 GDP did not change and 2010 GDP increased.
d. 2009 GDP increased and 2010 GDP did not change.

ANSWER: d

21. A stove is produced by a firm in 2014, added to the firm’s inventory in 2014, and sold to a household in 2015. It follows that
   a. the value of the good is added to the investment category of 2014 GDP, added to the consumption category of 2015 GDP, and subtracted from the investment category of 2015 GDP.
   b. the value of the good is added to the investment category of 2014 GDP, added to the consumption category of 2015 GDP, and not included in the investment category of 2015 GDP.
   c. the value of the good is added to the investment category of 2014 GDP, subtracted from the consumption category of 2015 GDP, and not included in the investment category of 2015 GDP.
   d. the value of the good is added to the investment category of 2014 GDP, subtracted from the consumption category of 2015 GDP, and added to the investment category of 2015 GDP.

ANSWER: a

22. Social Security payments are
   a. included in GDP because they represent current income.
   b. included in GDP because they represent potential consumption.
   c. excluded from GDP because they are not private pensions.
   d. excluded from GDP because they do not reflect the economy’s production.

ANSWER: d

23. Which of the following items is counted as part of government purchases?
   a. The federal government pays $2,000 in Social Security benefits to a retired person.
   b. The city of Athens, Ohio pays $10,000 to a tree-trimming firm to trim trees along city boulevards.
   c. The state of Nebraska pays $1,000 to help a low-income family pay its medical bills.
   d. All of the above are correct.

ANSWER: b

24. The U.S. government pays an economist at the U.S. Department of Commerce $100,000 in salary in 2013. The economist then retires. In 2014, the government pays him $60,000 in Social Security benefits. Which of the following is correct?
   a. The 2013 payment is included in 2013 GDP as government purchases, and the 2014 payment is included in 2014 GDP as government purchases.
   b. The 2013 payment is included in 2013 GDP as government purchases, but the 2014 payment is not included in 2014 GDP.
   c. The 2013 payment is included in 2013 GDP as government purchases, and the 2014 payment is included in 2014 GDP as government transfer payments.
   d. The 2013 payment is included in 2013 GDP as government purchases, and the 2014 payment is allocated to previous years’ GDP according to the amount of work performed by the economist each year.

ANSWER: b
25. When a U.S. citizen buys $500 of Chinese-made parts for a motorcycle,
   c. U.S. consumption increases by $500, U.S. net exports remain the same, and U.S. GDP increases by $500.
   d. U.S. consumption increases by $500, U.S. net exports decline by $500, and U.S. GDP remains the same.

   **ANSWER:** d

26. A German citizen buys an automobile produced in the United States by a Japanese company. As a result,
   a. U.S. net exports increase, U.S. GDP is unaffected, Japanese GNP increases, German net exports decrease, and German GNP and GDP are unaffected.
   b. U.S. net exports and GDP increase, Japanese GNP increases, German net exports decrease, German GNP is unaffected, and German GDP decreases.
   c. U.S. net exports and GDP increase, Japanese GNP increases, German net exports decrease, and German GNP and GDP are unaffected.
   d. U.S. net exports and GDP are unaffected, Japanese GNP increases, and German net exports, GNP, and GDP decrease.

   **ANSWER:** c

27. If a U.S. citizen buys a dress made in Nepal by a Nepalese firm, then
   d. U.S. consumption decreases, U.S. net exports increase, and U.S. GDP is unaffected.

   **ANSWER:** b

28. An American retailer purchased 500 pairs of shoes from a company in Thailand in the second quarter of 2016 but does not sell them to a consumer until the third quarter of 2016. Which of the following components of U.S. GDP is affected by this transaction in the third quarter of 2016?
   a. consumption, investment and imports
   b. only consumption and investment
   c. only consumption and imports
   d. only investment and imports

   **ANSWER:** b

29. In the economy of Talikastan in 2015, consumption was $200, exports were $150, GDP was $475, government purchases were $100, imports were $75, and investment was $100. What were Talikastan’s net exports in 2015?
   a. -$75
   b. -$225
   c. $225
   d. $75

   **ANSWER:** c
30. In the economy of Talikastan in 2015, consumption was two-thirds of GDP, government purchases were $1000 more than investment, investment was one-ninth of GDP, and the value of exports exceeded the value of imports by $500. What was Talikastan’s GDP in 2015?
   a. $1688
   b. $9000
   c. $13,500
   d. $15,000

   **ANSWER:** c

31. If the prices of all goods and services produced in the economy rose while the quantity of all goods and services stayed the same, which would rise?
   a. both real GDP and nominal GDP.
   b. real GDP but not nominal GDP.
   c. nominal GDP but not real GDP.
   d. neither nominal GDP nor real GDP.

   **ANSWER:** c

32. Which of the following statements about GDP is correct?
   a. Nominal GDP values production at current prices, whereas real GDP values production at constant prices.
   b. Nominal GDP values production at constant prices, whereas real GDP values production at current prices.
   c. Nominal GDP values production at market prices, whereas real GDP values production at the cost of the resources used in the production process.
   d. Nominal GDP values production at the cost of the resources used in the production process, whereas real GDP values production at market prices.

   **ANSWER:** a

33. If real GDP doubles and the GDP deflator doubles, then nominal GDP
   a. remains constant.
   b. doubles.
   c. triples.
   d. quadruples.

   **ANSWER:** d

34. If real GDP is 5,100 and nominal GDP is 4,900, then the GDP deflator is
   a. 104.1 so prices are higher than in the base year.
   b. 104.1 so prices are lower than in the base year.
   c. 96.1 so prices are higher than in the base year.
   d. 96.1 so prices are lower than in the base year.

   **ANSWER:** d
35. If in some year nominal GDP was $20 billion and the GDP deflator was 50, what was real GDP?
   a. $2.5 billion.
   b. $10 billion.
   c. $40 billion.
   d. $100 billion.

   **ANSWER:** c

36. If nominal GDP is $10 trillion and real GDP is $12 trillion, then the GDP deflator is
   a. 83.33, and this indicates that the price level has decreased by 16.67 percent since the base year.
   b. 83.33, and this indicates that the price level has increased by 83.33 percent since the base year.
   c. 120, and this indicates that the price level has increased by 20 percent since the base year.
   d. 120, and this indicates that the price level has increased by 120 percent since the base year.

   **ANSWER:** a

37. Suppose an economy produces only eggs and ham. In 2009, 100 dozen eggs are sold at $3 per dozen and 50 pounds of ham sold at $4 per pound. In 2010, the base year, eggs sold at $1.50 per dozen and ham sold at $5 per pound. For 2009,
   a. nominal GDP is $400, real GDP is $500, and the GDP deflator is 80.
   b. nominal GDP is $400, real GDP is $500, and the GDP deflator is 125.
   c. nominal GDP is $500, real GDP is $400, and the GDP deflator is 80.
   d. nominal GDP is $500, real GDP is $400, and the GDP deflator is 125.

   **ANSWER:** d

38. A country reported nominal GDP of $115 billion in 2010 and $125 billion in 2009. It also reported a GDP deflator of 85 in 2010 and 100 in 2009. Between 2009 and 2010,
   a. real output and the price level both rose.
   b. real output rose and the price level fell.
   c. real output fell and the price level rose.
   d. real output and the price level both fell.

   **ANSWER:** b

39. GDP does not reflect
   a. the value of leisure.
   b. the value of goods and services produced at home.
   c. the quality of the environment.
   d. All of the above are correct.

   **ANSWER:** d

40. GDP is not a perfect measure of well-being; for example,
   a. GDP incorporates a large number of non-market goods and services that are of little value to society.
   b. GDP places too much emphasis on the value of leisure.
   c. GDP fails to account for the quality of the environment.
   d. All of the above are correct.
41. In the CPI, goods and services are weighted according to
   a. how long a market has existed for each good or service.
   b. the extent to which each good or service is regarded by the government as a necessity.
   c. how much consumers buy of each good or service.
   d. the number of firms that produce and sell each good or service.

   ANSWER: c

42. When computing the cost of the basket of goods and services purchased by a typical consumer, which of the following changes from year to year?
   a. the quantities of the goods and services purchased
   b. the prices of the goods and services
   c. the goods and services making up the basket
   d. All of the above are correct.

   ANSWER: b

43. If the consumer price index was 96 in 2012, 100 in 2013, and 102 in 2014, then the base year must be
   a. 2012.
   b. 2013.
   c. 2014.
   d. The base year cannot be determined from the given information.

   ANSWER: b

44. Suppose a basket of goods and services has been selected to calculate the CPI and 2012 has been selected as the base year. In 2012, the basket’s cost was $50; in 2014, the basket’s cost was $51; and in 2016, the basket’s cost was $52. The value of the CPI in 2014 was
   a. 98.0.
   b. 102.0.
   c. 104.0.
   d. 151.0.

   ANSWER: b

45. Suppose a basket of goods and services has been selected to calculate the CPI and 2012 has been selected as the base year. In 2012, the basket’s cost was $77; in 2013, the basket’s cost was $82; and in 2014, the basket’s cost was $90. The value of the CPI in 2014 was
   a. 109.8 and the inflation rate was 9.8%.
   b. 109.8 and the inflation rate was 16.9%.
   c. 116.9 and the inflation rate was 9.8%.
   d. 116.9 and the inflation rate was 16.9%.

   ANSWER: c

46. The price index was 136 in one year and 142 in the next year. What was the inflation rate between the two years?
   a. 1.04 percent
   b. 4.41 percent
c. 6.00 percent  
d. 42.00 percent  

**ANSWER:**  
b

Table 1.

<table>
<thead>
<tr>
<th>Year</th>
<th>Consumer Price Index</th>
<th>Inflation Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>115</td>
<td>B</td>
</tr>
<tr>
<td>2007</td>
<td>125</td>
<td>C</td>
</tr>
<tr>
<td>2008</td>
<td>140</td>
<td>D</td>
</tr>
<tr>
<td>2009</td>
<td>A</td>
<td>10%</td>
</tr>
<tr>
<td>2010</td>
<td>160</td>
<td>E</td>
</tr>
</tbody>
</table>

Refer to the table above for the questions 47 through 50.

47. C is  
a. 120  
b. 25%  
c. 8.7%  
d. 12%  

**ANSWER:**  
c

48. D is  
a. 12%  
b. 154  
c. 40%  
d. 15%  

**ANSWER:**  
a

49. A is  
a. 14  
b. 150  
c. 144  
d. 154  

**ANSWER:**  
d

50. E is  
a. 60%  
b. 6%  
c. 3.9%  
d. 6.7%  

**ANSWER:**  
c

51. In a particular economy, the price index was 120 in 2012 and 130 in 2013. Which of the following statements is correct?  
a. The economy experienced a rising price level between 2012 and 2013.
b. The economy experienced a higher inflation rate between 2012 and 2013 than it had experienced between 2011 and 2012.
c. The inflation rate between 2012 and 2013 was 10 percent.
d. The base year is 2011.

\textbf{ANSWER:} \quad a

52. Which of the following changes in the price index produces the greatest rate of inflation: 100 to 110, 150 to 165, or 180 to 198?
a. 100 to 110
b. 150 to 165
c. 180 to 198
d. All of these changes produce the same rate of inflation.

\textbf{ANSWER:} \quad d

53. In an imaginary economy, consumers buy only hot dogs and hamburgers. The fixed basket consists of 10 hot dogs and 6 hamburgers. A hot dog cost $3 in 2006 and $5.40 in 2007. A hamburger cost $5 in 2006 and $6 in 2007. Which of the following statements is correct?
a. When 2006 is chosen as the base year, the consumer price index is 90 in 2007.
b. When 2006 is chosen as the base year, the inflation rate is 150 percent in 2007.
c. When 2007 is chosen as the base year, the consumer price index is 100 in 2006.
d. When 2007 is chosen as the base year, the inflation rate is 50 percent in 2007.

\textbf{ANSWER:} \quad d

54. Suppose the price index was 105 in 2017, 126 in 2018, and the inflation rate was lower between 2018 and 2019 than it was between 2017 and 2018. This means that
a. the price index in 2019 was lower than 126.0.
b. the price index in 2019 was lower than 147.0.
c. the price index in 2019 was lower than 151.2.
d. the inflation rate between 2018 and 2019 was lower than 1.2 percent.

\textbf{ANSWER:} \quad c

55. Assume an economy experienced a positive rate of inflation between 2003 and 2004 and again between 2004 and 2005. However, the inflation rate was lower between 2004 and 2005 than it was between 2003 and 2004. Which of the following scenarios is consistent with this assumption?
a. The CPI was 100 in 2003, 110 in 2004, and 105 in 2005.
b. The CPI was 100 in 2003, 120 in 2004, and 135 in 2005.
c. The CPI was 100 in 2003, 105 in 2004, and 130 in 2005.
d. The CPI was 100 in 2003, 90 in 2004, and 88 in 2005.

\textbf{ANSWER:} \quad b
The table below pertains to Iowan, an economy in which the typical consumer’s basket consists of 4 pounds of pork and 3 bushels of corn.

Table 2.

<table>
<thead>
<tr>
<th>Year</th>
<th>Price of Pork</th>
<th>Price of Corn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$20 per pound</td>
<td>$12 per bushel</td>
</tr>
<tr>
<td>2013</td>
<td>$25 per pound</td>
<td>$18 per bushel</td>
</tr>
</tbody>
</table>

Refer to Table 2 above for questions 56 through 63.

56. The cost of the basket in 2012 was
   a. $108.
   b. $116.
   c. $112.
   d. $224.

   ANSWER: b

57. The cost of the basket in 2013 was
   a. $150.50.
   b. $147.
   c. $154.
   d. $301.

   ANSWER: c

58. If 2012 is the base year, then the CPI for 2012 was
   a. 75.3.
   b. 100.0.
   c. 116.0.
   d. 132.8.

   ANSWER: b

59. If 2012 is the base year, then the CPI for 2013 was
   a. 100.0.
   b. 116.0.
   c. 132.8.
   d. 154.0.

   ANSWER: c

60. If 2013 is the base year, then the CPI for 2012 was
   a. 75.3.
   b. 100.0.
   c. 116.0.
   d. 132.8.

   ANSWER: a

61. If 2013 is the base year, then the CPI for 2013 was
   a. 75.3.
   b. 100.0.
62. If 2012 is the base year, then the inflation rate in 2013 was
   a. 24.7 percent.
   b. 54.0 percent.
   c. 32.8 percent.
   d. 38.0 percent.
   ANSWER: c

63. If 2013 is the base year, then the inflation rate in 2013 was
   a. 24.7 percent.
   b. 54.0 percent.
   c. 32.8 percent.
   d. 38.0 percent.
   ANSWER: c

64. Suppose prices of personal computers fall significantly and consumers respond by buying more
   personal computers. The consumer price index
   a. reflects this price decrease accurately.
   b. understates this price decrease due to the substitution bias.
   c. overstates this price decrease due to the income bias.
   d. overstates this price decrease due to the substitution bias.
   ANSWER: b

65. One of the widely acknowledged problems with using the consumer price index as a measure of the
   cost of living is that the CPI
   a. fails to account for consumer spending on housing.
   b. accounts only for consumer spending on food, clothing, and energy.
   c. fails to account for the fact that consumers spend larger percentages of their incomes on some
      goods and smaller percentages of their incomes on other goods.
   d. fails to account for the introduction of new goods.
   ANSWER: d

66. When the quality of a good improves while its price remains the same, the purchasing power of the
   dollar
   a. increases, so the CPI overstates the change in the cost of living if the quality change is not
      accounted for.
   b. increases, so the CPI understates the change in the cost of living if the quality change is not
      accounted for.
   c. decreases, so the CPI overstates the change in the cost of living if the quality change is not
      accounted for.
   d. decreases, so the CPI understates the change in the cost of living if the quality change is not
accounted for.

ANSWER: a

67. For some racquet sports, there have been increases in the size of the racquets; also, the methods and materials used for making racquets have improved. To which problem in the construction of the CPI is this situation most relevant?
   a. substitution bias
   b. introduction of new goods
   c. unmeasured quality change
   d. income bias

ANSWER: c

68. Suppose OPEC succeeds in raising world oil prices by 300 percent. This price increase causes inventors to look at alternative sources of fuel for internal-combustion engines. A hydrogen-powered engine is developed which is cheaper to operate than gasoline engines. Which problems in the construction of the CPI does this situation represent?
   a. substitution bias and introduction of new goods
   b. introduction of new goods and unmeasured quality change
   c. substitution bias and unmeasured quality change
   d. income bias and substitution bias

ANSWER: a

69. When we are calculating the consumer price index and the inflation rate for a certain year,
   a. the value of the consumer price index may depend on the choice of a base year, but the inflation rate does not depend on the choice of a base year.
   b. the inflation rate may depend on the choice of a base year, but the value of the consumer price index does not depend on the choice of a base year.
   c. both the value of the consumer price index and the inflation rate may depend on the choice of a base year.
   d. neither the value of the consumer price index nor the inflation rate depends on the choice of a base year.

ANSWER: a

70. If the CPI was 95 in 1955 and is 475 today, then $100 today purchases the same amount of goods and services as
   a. $4.75 purchased in 1955.
   b. $20.00 purchased in 1955.
   c. $95.00 purchased in 1955.
   d. $500 purchased in 1955.

ANSWER: b

71. The CPI was 172 in 2007, and the CPI was 46.5 in 1982. If your parents put aside $1,000 for you in 1982, then how much would you have needed in 2007 in order to buy what you could have bought with the $1,000 in 1982?
   a. $270.35
   b. $1,255.00
72. Ethel purchased a bag of groceries in 1970 for $8. She purchased the same bag of groceries in 2006 for $25. If the price index was 38.8 in 1970 and the price index was 180 in 2006, then what is the price of the 1970 bag of groceries in 2006 dollars?
   a. $5.39
   b. $25.00
   c. $29.11
   d. $37.11

   **ANSWER:** d

73. Janelle earned a salary of $40,000 in 1996 and $65,000 in 2006. The consumer price index was 160 in 1996 and 266 in 2006. Janelle’s 2006 salary in 1996 dollars is
   a. $39,097.74.
   b. $43,062.50.
   c. $68,900.00.
   d. $108,062.50.

   **ANSWER:** a

74. Ruben earned a salary of $60,000 in 2001 and $80,000 in 2006. The consumer price index was 177 in 2001 and 221.25 in 2006. Ruben’s 2001 salary in 2006 dollars is
   a. $75,000; thus, Ruben’s purchasing power increased between 2001 and 2006.
   b. $75,000; thus, Ruben’s purchasing power decreased between 2001 and 2006.
   c. $85,000; thus, Ruben’s purchasing power increased between 2001 and 2006.
   d. $85,000; thus, Ruben’s purchasing power decreased between 2001 and 2006.

   **ANSWER:** a

75. Harry spent $39,000 in 2009 and $42,000 in 2014 on goods and services. The consumer price index was 220 for 2009 and 231 for 2014. Harry’s 2014 spending in 2009 dollars is about
   a. $40,000.
   b. $44,100.
   c. $37,838.
   d. $40,091.

   **ANSWER:** a

76. Which of the following statements about real and nominal interest rates is correct?
   a. Real interest rates can be either positive or negative, but nominal interest rates must be positive.
   b. Real interest rates and nominal interest rates must be positive.
   c. Real interest rates must be positive, but nominal interest rates can be either positive or negative.
   d. Real interest rates and nominal interest rates can be either positive or negative.

   **ANSWER:** a
77. If the nominal interest rate is 6 percent and the rate of inflation is 10 percent, then the real interest rate is
   a. -16 percent.
   b. -4 percent.
   c. 4 percent.
   d. 16 percent.
   \textit{ANSWER:} \hspace{1cm} b

78. Suppose the consumer price index was 184 in 2009 and 198.17 in 2010. The nominal interest rate during this period was 5.8 percent. What was the real interest rate during this period?
   a. 0.4 percent
   b. 1.2 percent
   c. –1.9 percent
   d. –2.6 percent
   \textit{ANSWER:} \hspace{1cm} c

79. The nominal interest rate for a consumer loan lasting from 2007 to 2008 is 8.5 percent and the real interest rate is 4.5 percent. If the consumer price index was 200 in 2007, what would the consumer price index value be in 2008?
   a. 192
   b. 208
   c. 209
   d. 217
   \textit{ANSWER:} \hspace{1cm} b

80. When looking at a graph of nominal and real interest rates you notice that nominal rates always lie above real rates. From this you conclude
   a. there were serious episodes of deflation in the time frame represented on the graph.
   b. consumer prices were always rising in the time frame represented on the graph.
   c. the economy never experienced a recession in the time frame represented on the graph.
   d. GDP was always increasing for the time frame represented on the graph.
   \textit{ANSWER:} \hspace{1cm} b